

## Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Genesee County Road Commission	County Genesee
Fiscal Year End 9/30/06	Opinion Date 3/12/07	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 810-767-5350		
Street Address 111 East Court Street, Suite 1A		City Flint	State MI	Zip 48502
Authorizing CPA Signature 		Printed Name Tadd Harburn		License Number 1101014134

**Genesee County Road Commission  
Flint, Michigan**

**Financial Report with Supplemental Information**

**September 30, 2006**

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*Independent Auditors' Report*

Board of Road Commissioners  
for the County of Genesee  
Flint, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Road Commission for the County of Genesee, a component unit of Genesee County, as of September 30, 2006 and for the year then ended, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission for the County of Genesee at September 30, 2006, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1D, during the year ended September 30, 2006, the Road Commission implemented the provision to retroactively capitalize major infrastructure assets acquired on or before September 30, 2001, as required by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments.

The management's discussion and analysis and information in the required supplemental information section are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The financial statements in the "other supplemental information" section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statements have been subjected to auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

March 12, 2007

## **Management Discussion and Analysis**

**Genesee County Road Commission  
Management Discussion and Analysis  
September 30, 2006**

Our discussion and analysis of Genesee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

**Overview of the Financial Statements**

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities – this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

**Reporting the Commission as a Whole**

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional non-financial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operating Fund. All of the Road Commission's activities are accounted for in this fund. The General Operating Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

### **Financial Analysis of the Road Commission as a Whole**

The Road Commission's net assets increased approximately 5.8% or \$10,178,278, from \$174,882,760 to \$185,061,038 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

#### Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (exclusive of assets invested in capital assets, net of related debt) are considered unrestricted and available for the main purpose of the Road Commission which is to maintain and construct roads.

The investment in capital assets net of related debt increased by \$8,828,658. The increase in net assets is primarily the result of recording the \$15,972,329 of infrastructure improvements made during the year less depreciation on capital assets.

#### Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current and other assets	\$ 66,190,667	\$ 63,729,134
Capital assets	<u>127,339,381</u>	<u>119,514,860</u>
Total assets	<u>193,530,048</u>	<u>183,243,994</u>
<b>Liabilities</b>		
Long-term debt outstanding	1,840,753	2,751,953
Other liabilities	<u>6,628,257</u>	<u>5,639,243</u>
Total liabilities	<u>8,469,010</u>	<u>8,391,196</u>
<b>Net assets</b>		
Invested in capital assets	124,577,901	115,749,243
Unrestricted	<u>60,483,137</u>	<u>59,133,517</u>
Total net assets	<u>\$185,061,038</u>	<u>\$174,882,760</u>

**Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
<b>Program Revenues</b>		
Charges for Services	\$ 5,243,261	\$ 5,373,418
Capital Grants	7,665,081	5,636,903
Operating Grants and donations	26,837,195	25,243,257
<b>General Revenues</b>		
Interest Income	2,274,568	1,292,021
Miscellaneous	597,779	582,803
Gain on sale of capital assets	<u>137,727</u>	<u>178,206</u>
Total revenues	<u>42,755,611</u>	<u>38,306,608</u>
<b>Expenses</b>		
Maintenance	26,653,104	20,933,471
Equipment (net)	2,057,383	1,345,799
Administrative	3,050,192	3,016,846
Other	664,600	797,314
Interest	<u>152,054</u>	<u>206,607</u>
Total expenses	<u>32,577,333</u>	<u>26,300,037</u>
<b>Change in Net Assets</b>	<u>\$10,178,278</u>	<u>\$12,006,571</u>

**Road Fund Highlights**

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2006, the fund balance of the General Operating Fund increased \$439,436 as compared to an increase of \$2,990,740 in the fund balance for the year ended September 30, 2005. Total revenues were \$41,766,600, an increase of \$3,105,579 as compared to the previous year. Total expenditures were \$41,338,981, an increase of \$5,641,886 as compared to the previous year. This change in expenditures is due primarily to projects that were delayed during 2005 and resumed during 2006.

**Budgetary Highlights**

Genesee County Road Commission's budget is a dynamic document. Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$47,069,000, lower than the original budget primarily due to projections for federal and state funded road projects that were delayed for various reasons. The actual revenue recognized during 2006 was less than the final amended budget by \$280,740.

The final amended expenditure budget for 2006 was \$49,200,940, which was lower than the original budget primarily due to projections for federal and state funded road projects that were delayed for various reasons, an increase in maintenance expenditures and cost-saving measures that were implemented throughout the year. The actual expenditures recognized during 2006 were less than the final amended budget by \$2,852,116. There were no unfavorable variances in any expenditure line-items.



## Capital Asset and Debt Administration

### Capital Assets

As of September 30, 2006, the Road Commission had \$127,339,380 invested in capital assets as follows:

	<u>2006</u>	<u>2005</u>
Land and improvements	\$ 1,068,581	\$ 943,748
Buildings and improvements	7,963,684	7,816,053
Road equipment	19,166,176	19,158,456
Other equipment	2,333,373	2,308,129
Infrastructure	264,631,874	248,659,545
Construction in progress	2,112,683	1,040,922
Depletable assets	<u>1,210</u>	<u>1,210</u>
Total capital assets	297,277,581	279,928,063
Accumulated depreciation	<u>(169,938,201)</u>	<u>(160,413,203)</u>
Net capital assets	<u>\$ 127,339,380</u>	<u>\$ 119,514,860</u>

Current year's major additions included the following:

Road equipment	\$ 1,433,167
Infrastructure - roads	15,972,329

### **Debt Highlights**

At the year end, the Road Commission had \$2,761,480 in bonds and installment purchase agreements versus \$3,765,617 in the previous year, a decrease of 27%.

There was no new debt issued during 2006. The Road Commission paid off one bond agreement during 2006.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in notes to the financial statements.

### **Economic Factors and Next Year's Budget**

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. Unfavorable economic conditions may continue to affect crude oil prices, which could impact the Road Commission's cost of fuel as well as material costs for maintenance projects. The Road Commission derives approximately 60% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive 2.8% less in 2006 compared to 2005. Continued reductions in revenue sharing will directly affect local units of government. This will, in turn, affect the amount of funds local units will have available to participate in road projects.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Genesee County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Genesee County.

### **Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of Finance, Genesee County Road Commission, at 211 W. Oakley St., Flint, Michigan 48503 or visit us on the Internet at [www.gcrc.org](http://www.gcrc.org).

## **Government-wide Financial Statements**

**Genesee County Road Commission**  
**Statement of Net Assets**  
**September 30, 2006**

**Assets**

Cash and cash equivalents:	
Unrestricted	\$ 47,611,657
Restricted-escrow	877,317
Receivables:	
Accounts	220,815
Special assessments:	
Regular	3,930,495
Special projects	3,182,420
Due from other governments:	
Michigan Transportation Fund	3,730,477
State Trunkline maintenance	1,080,739
State Transportation Department-other	966,624
Township road agreements	1,793,893
Other	85,488
Inventory:	
Road materials	945,045
Equipment materials	249,257
Surplus property	163
Prepaid items	1,516,277
	<hr/>
Current assets	66,190,667
Capital assets not being depreciated	2,592,708
Capital assets (net of accumulated depreciation)	124,746,673
	<hr/>
Total assets	193,530,048

**Liabilities**

Current liabilities:	
Accounts payable	2,025,232
Other accrued liabilities	821,062
Payable from restricted assets:	
Deposits - escrow	877,317
Advances - State of Michigan	1,133,811
- Other	808,330
Due to other governments	41,778
Bonds payable - due within one year	850,000
Installment purchase agreements payable - due within one year	70,727
Non current liabilities:	
Bonds payable - due in more than one year	1,535,000
Installment purchase agreements payable - due in more than one year	305,753
	<hr/>
Total liabilities	8,469,010

**Net Assets**

Invested in capital assets (net of related debt)	124,577,901
Unrestricted	60,483,137
	<hr/>
Total net assets	<u><u>\$ 185,061,038</u></u>

*The notes to financial statements are an integral part of this statement.*

**Genesee County Road Commission  
Statement of Activities  
For the Year Ended September 30, 2006**

**Program expenses:**

Primary Road Maintenance	\$ 14,092,825
Local Road Maintenance	8,284,871
State trunkline	4,275,408
Equipment Expense-net	2,057,383
Administrative Expense-net	3,050,192
Other	664,600
Interest on long term debt	152,054

Total program expenses	32,577,333
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**Program revenues:**

Capital Grants:	
Federal grants	3,781,373
State grants- urban roads	3,883,708
Operating Grants and Donations:	
State allocation	21,672,670
Contributions from local government	5,162,236
Contributions from primary government	2,289
Charges for services	5,243,261

Total program revenues	39,745,537
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Net program revenues	7,168,204
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**General revenues:**

Investment earnings	2,274,568
Miscellaneous	597,779
Gain on sale of capital assets	137,727

Total general revenues	3,010,074
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Change in net assets	10,178,278
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**Net assets:**

Beginning of year - as restated (Note 13)	174,882,760
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<b>End of year</b>	<b>\$ 185,061,038</b>
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*The notes to financial statements are an integral part of this statement.*

## **Fund Financial Statements**

**Genesee County Road Commission  
Balance Sheet  
Governmental Fund- General Operating Fund  
September 30, 2006**

**Assets**

Cash and cash equivalents:		
Unrestricted	\$	47,611,657
Restricted - escrow		877,317
Receivables:		
Accounts		220,815
Special assessments:		
Regular		3,930,495
Special projects		3,182,420
Due from other governments:		
Michigan Transportation Fund		3,730,477
State Trunkline maintenance		1,080,739
State Transportation		
Department - other		966,624
Township road agreements		1,793,893
Other		85,488
Inventory:		
Road materials		945,045
Equipment materials		249,257
Surplus property		163
Prepaid items		1,516,277
		<hr/>
Total assets	\$	<b><u><u>66,190,667</u></u></b>

*The notes to financial statements are an integral part of this statement.*

**Liabilities**

Accounts payable	\$ 2,025,232
Other accrued liabilities	434,505
Payable from restricted assets:	
Deposits - escrow	877,317
Advances - State of Michigan	1,133,811
- Other	808,330
Due to other governments	41,778
Deferred revenue -	
Special assessments and other	<u>8,441,740</u>
Total liabilities	<u>13,762,713</u>

**Fund balance**

Fund balance:	
Reserved:	
Prepaid items	1,516,277
Inventory	1,194,465
Unreserved:	
Designated for:	
Self Insurance	457,621
Road expenditures	<u>49,259,591</u>
Total fund balance	<u>52,427,954</u>
Total liabilities and fund balance	<u><u>\$ 66,190,667</u></u>

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balance reported- Governmental Fund	\$ 52,427,954
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	127,339,381
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	8,441,740
Accrued liabilities	(386,557)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(2,761,480)</u>
Net assets of governmental activities	<u><u>\$ 185,061,038</u></u>



**Genesee County Road Commission  
General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended September 30, 2006**

<b>Revenues:</b>	
Permits	\$ 298,196
Intergovernmental -	
Federal sources	3,781,373
State sources	25,556,378
Local sources	4,594,919
Charges for services	4,291,553
Interest and rents	2,274,568
Other	969,613
	<hr/>
Total revenues	41,766,600
	<hr/>
<b>Expenditures:</b>	
Current -	
Construction	2,484,043
Heavy maintenance	13,624,698
Maintenance	13,687,751
State trunkline	4,275,408
Equipment - net	2,041,948
Administrative	2,972,553
Other	664,600
Capital outlay - net	422,262
Debt service	1,165,718
	<hr/>
Total expenditures	41,338,981
	<hr/>
Excess of revenues over expenditures	427,619
	<hr/>
<b>Other financing sources:</b>	
County appropriation	2,289
Capital leases	9,528
	<hr/>
Total other financing sources	11,817
	<hr/>
Excess of revenues and other sources over expenditures	439,436
	<hr/>
Fund balance - beginning of year	51,988,518
	<hr/>
<b>Fund balance - end of year</b>	<b>\$ 52,427,954</b>
	<hr/> <hr/>

*The notes to financial statements are an integral part of this statement.*

**Genesee County Road Commission  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
For the Year Ended September 30, 2006**

Amounts reported for governmental activities in the statement of activities (page 5) are different because:

Net change in fund balances - total governmental funds (page 8)	\$ 439,436
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital assets	18,818,778
Depreciation	(11,011,199)
Deletions	(13,020)

The effect of expenses for accrued expenses	(46,575)
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The effect of revenues on the modified accrual basis in the combined statement of revenues that do not provide current financial resources.	977,194
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets.

This amount is the net effect of these differences in the treatment of long-term debt and related items.

<u>1,013,664</u>
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Change in net assets of governmental activities (page 5)	<u><u>\$ 10,178,278</u></u>
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*The notes to financial statements are an integral part of this statement.*

## **Notes to Financial Statements**

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**1. Summary of significant accounting policies**

The accounting policies of the Genesee County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental Units. The following is a summary of the significant accounting policies used by the Road Commission:

**A. Reporting entity**

The Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the Genesee County Board of Commissioners. The Road Commission may not issue debt without the Genesee County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Genesee County Road Commission, a discretely presented component unit of Genesee County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Road Commission. There is only one fund reported in the government-wide financial statements.

The statement of net assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense is those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, if any and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provision. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**1. Summary of significant accounting policies – (continued)**

**C. Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**D. Assets, liabilities, and net assets or equity**

**Bank deposits and investments:**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Fair value is determined based on quoted market prices.

**Inventories:**

Inventories are priced at costs as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

**Prepaid expenses:**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both government-wide and fund financial statements.

**Capital assets:**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**1. Summary of significant accounting policies – (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

Capital assets: - (continued)

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired since September 30, 2001 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Genesee County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure in the statement of net assets. The Road Commission retroactively capitalized the major infrastructure assets acquired on or before September 30, 2001, during the year ended September 30, 2006.

Depreciation:

Depreciation is computed on the straight-line method for all assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Engineering department	4 to 10 years
Office equipment	4 to 10 years
Infrastructure – roads	8 to 30 years
Infrastructure – bridges	12 to 50 years

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated absences (vacation and sick leave):

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused personal leave and vacation under formulas and conditions specified in the contracts.

As a result, it is the Road Commission's policy to permit employees to accumulate earned but unused personal and vacation pay benefits. All personal and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Deferred Revenue:

Deferred revenue is those where asset recognition criteria have been met, but for which revenue criteria have not been met. The deferred revenue relates to long term receivables (mainly special assessments) which are unavailable to finance current year expenditures.

**2. Stewardship, compliance and accountability**

Budgetary procedures:

The Road Commission Manager/Director prepares from data submitted by the administrative staff a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**2. Stewardship, compliance and accountability – (continued)**

**Budgetary procedures: - (continued)**

Prior to September 30, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution. All amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission's approved budget was adopted by departments for expenditures. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act.

The departmental budget does not recognize revenues or expenditures in the accounting reporting format recommended by the Uniform Accounting Procedure Manual for Michigan County Road Commissions in that bond proceeds are not classified separately from revenues as other financing sources and expenditures are not classified separately as current, capital outlay and debt service. Also, the departmental budget does not recognize revenue credits as offsets against expenditures but, recognizes the amounts as revenue; and depreciation or depreciation credit is not recognized.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated. The Road Commission complied with this requirement as reported on the Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual.

**Budget violations:**

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for the budget. There were no budget violations for the year ended September 30, 2006.

**3. Deposits and investments**

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Commission has designated two banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Commission's deposits and investment policies are in accordance with statutory authority.

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**3. Deposits and investments – (continued)**

The Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Commission had \$37,276,073 of bank deposits (checking and high balance savings accounts) that were uninsured and uncollateralized. The Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the commission evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Commission's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. gov or agency bond or notes (sweep)	\$ 11,973,499	Counterparty

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Commission's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Sweep account	\$ 11,518,589	3 months
Michigan Governmental MMF	454,910	3 months

**4. Capital assets**

Capital asset activity of the Genesee County Road Commission for the current year was as follows:

	<u>Balance 10-01-05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9-30-06</u>
Capital assets not being depreciated:				
Land	\$ 478,816	\$ -	\$ -	\$ 478,816
Construction in progress	1,040,922	2,112,683	1,040,922	2,112,683
Depletable assets	1,210	-	-	1,210
Subtotal	1,520,948	2,112,683	1,040,922	2,592,709



**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**4. Capital assets – (continued)**

	Balance As restated <u>10-01-05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>9-30-06</u>
Capital assets being depreciated:				
Land improvements	464,932	124,833	-	\$ 589,765
Buildings and improvements	7,816,053	147,631	-	7,963,684
Road equipment	19,158,456	1,433,167	1,425,447	19,166,176
Shop equipment	452,123	-	7,973	444,150
Engineering equipment	102,746	-	-	102,746
Yard and storage equipment	498,964	-	-	498,964
Office equipment	1,240,888	69,057	35,840	1,274,105
Lab equipment	13,408	-	-	13,408
Infrastructure – roads	231,069,756	15,778,133	-	246,847,889
Infrastructure – bridges	17,589,789	194,196	-	17,783,985
Subtotal	<u>278,407,115</u>	<u>17,747,017</u>	<u>1,469,260</u>	<u>294,684,872</u>
Less Accumulated depreciation:				
Land improvements	138,703	24,182	-	162,885
Buildings and improvements	3,805,141	303,760	-	4,108,901
Road equipment	14,628,964	1,991,599	1,419,248	15,201,315
Shop equipment	307,305	23,408	7,973	322,740
Engineers' equipment	85,072	3,492	-	88,564
Yard and storage equipment	493,890	2,255	-	496,145
Office equipment	844,372	106,658	29,019	922,011
Lab equipment	13,408	-	-	13,408
Infrastructure – roads	136,738,849	8,204,646	-	144,943,495
Infrastructure – bridges	3,357,499	321,238	-	3,678,737
Subtotal	<u>160,413,203</u>	<u>10,981,238</u>	<u>1,456,240</u>	<u>169,938,201</u>
Net capital assets being depreciated	<u>117,993,912</u>	<u>6,765,779</u>	<u>13,020</u>	<u>124,746,671</u>
Total net capital assets	<u>119,514,860</u>	<u>8,878,462</u>	<u>1,053,942</u>	<u>127,339,380</u>

Depreciation was allocated to Governmental functions as follows:

Primary road maintenance	\$ 9,523,388
Local road maintenance	1,351,432
State trunkline	<u>106,418</u>
Total	<u>\$10,981,238</u>

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**5. Long-term debt**

The Road Commission has the following governmental activity long-term debt outstanding at September 30, 2006:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006
MTF notes	\$3,330,000	\$ -	\$(945,000)	\$2,385,000
Capital leases	435,617	9,528	(68,665)	376,480
	<u>\$3,765,617</u>	<u>\$ 9,528</u>	<u>\$(1,013,665)</u>	<u>\$2,761,480</u>

General obligations bonds and loans payable:

The outstanding bonds and notes payable at September 30, 2006, and matured interest thereon, are payable to the State of Michigan from the proceeds of state-collected taxes returned to the Road Commission as Act 51 monies. In the case of default, the state treasurer is authorized to withhold future disbursements of Act 51 monies due the Road Commission until the defaulted payments are recovered by the state.

For the Michigan Transportation Fund notes, special assessments have also been levied on specific properties abutting certain road improvements. The collection of the assessments have been pledged as additional security for the payment of the bonds.

Significant details regarding the long-term debt are as follows:

Obligation Payable	Final Payment Due	Interest Rate or Range	Annual Principal Payment or Range	Outstanding Balance September 30, 2006	Due Within One Year
Michigan Transportation Fund notes:					
1997 Issue	August 1, 2007	4.85	75,000	75,000	75,000
1998 Issue	August 1, 2008	3.80	445,000	890,000	445,000
1999 Issue	August 1, 2009	4.85 – 5.00	75,000	225,000	75,000
2000 Issue	August 1, 2010	4.60 – 4.80	105,000	420,000	105,000
2001 Issue	August 1, 2011	3.75 - 4.20	125,000	625,000	125,000
2002 Issue	August 1, 2012	2.80 – 3.70	25,000	150,000	25,000
Total notes				2,385,000	
Capital lease obligation				376,480	
				<u>\$2,761,480</u>	

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**5. Long-term debt – (continued)**

Future debt service requirements on bonds and notes:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended	9-30-2007	\$ 850,000	\$ 98,810	\$ 948,810
	9-30-2008	775,000	63,983	838,983
	9-30-2009	330,000	32,625	362,625
	9-30-2010	255,000	18,115	273,115
	9-30-2011 – 9/30/2012	175,000	8,000	183,000
		<u>\$2,385,000</u>	<u>\$221,533</u>	<u>\$2,606,533</u>

Interest is payable on all obligations semi-annually.

Principal is paid on an annual basis.

Act 143, Public Acts of State 1943, provides that total bonds and notes outstanding under this act cannot exceed 40% of the sum of the revenues derived from state collected taxes returned to the county for county road purposes for the last preceding five calendar years and not specifically allocated for other purposes. As of September 30, 2006, the Road Commission is within the statutory limit of Act 143.

**6. Capital leases**

The Road Commission has entered into various lease purchase agreements to finance the acquisition of equipment with capitalized costs totaling \$1,010,275. These lease agreements qualify as capital leases for accounting purposes (agreement provides for either title transfer or bargain purchase option at end of the lease terms) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception.

Commitments under this lease agreement provides for minimum annual payments as follows:

<u>Years Ending</u> <u>September 30,</u>	<u>Principal</u> <u>(Present Value)</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 70,727	\$ 13,036	\$ 83,763
2008	73,212	10,550	83,762
2009	75,793	7,969	83,762
2010	78,472	5,289	83,761
2011	78,276	2,607	80,883
	<u>\$376,480</u>	<u>\$ 39,451</u>	<u>\$415,931</u>

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**7. Employee pension plan**

Plan description

The Genesee County Road Commission participates in a contributory multi-employer defined benefit pension plan (Genesee County Employees Retirement System, also known as GCERS). The GCERS was organized pursuant to Section 12A of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12a), as amended. The GCERS is regulated under the Genesee County Employees Retirement System Ordinance, the sections of which have been approved by the state pension commission. The plan includes the following employer groups: Genesee County general unit, Road Commission, Water and Waste Services, Community Mental Health, City of Mt. Morris, and the Genesee District Library. GCERS issues a publicly available annual financial statement that includes financial statements and required supplementary information. Copies of this report can be obtained by writing to the Genesee County Employees' Retirement System, 1101 Beach Street, Flint, Michigan 48502.

The plan covers all eligible full-time employees of the Road Commission. The Road Commission's membership at December 31, 2005 was comprised of 172 active participants, 212 retirants and beneficiaries, and 5 inactive but vested people (information regarding the number of active participants, which were fully or partially vested was not available). In general with some exceptions, all employees are eligible for normal retirement as follows:

- Age 60 with 8 or more years of service
- With 25 or more years of service, regardless of age

Normal retirement benefits for Road Commission employees are based on the final average compensation (FAC) of the highest 3 years out of the total credited service times the sum of 2.4% for each of the first 25 years of service, plus 1.0% for the years of service in excess of 25 years. The maximum financed portion is 75% of FAC.

Funding policy

Covered Road Commission employees are required under the plan and contractual provisions to contribute to the system between 3.0% and 6.0% of their annual compensation depending on their job classification. The Road Commission contributions are based on actuarially determined amounts. There were no loans outstanding from the GCERS to the Road Commission for the year ended December 31, 2005.

The Road Commission forwarded \$323,421 of pension contributions withheld from employees during the year ended September 30, 2006.

Actuarial assumptions

The significant actuarial assumptions used to compute the actuarial accrued liabilities are as follows:

Valuation date	December 31, 2005
Actuarial cost method	Individual entry-age
Amortization method	Level percent of payroll
Remaining amortization period for credit	10 years
Asset valuation method	4 year smoothed market value
Investment rate of return	8.0%
Projected salary increases	5.00% to 9.03%
Includes inflation at	5.00%
Cost of living adjustments (COLA)	3.0% to 4.0%

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**7. Employee pension plan - (continued)**

Annual pension cost

The Road Commission's Annual Required Contribution (ARC) and Annual Pension Cost (APC) for the year ended September 30, 2006 was \$1,652,590. All employer contributions made were equal to required contributions by GCERS. There was no accumulated Net Pension Obligation (NPO) at September 30, 2006. The Annual Pension Cost (APC), percentage of APC contributed, and Net Pension Obligation (NPO) for the years ended September 30, 2006 - 2003, are summarized as follows:

<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$1,364,887	100%	\$ -
12/31/04	1,549,087	100	-
12/31/05	1,652,590	100	-

The Plan's Schedule of Funding Progress and Schedule of Employer Contributions is summarized below:

**Pension Plan**  
**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded (Over Funded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c</u>
12/31/03	\$50,204,240	\$57,823,282	\$7,619,042	86.8%	8,348,613	91.3%
12/31/04	50,114,352	60,180,454	10,066,102	83.3	9,318,928	108.0
12/31/05	53,344,328	61,212,184	7,867,856	87.1	9,314,227	84.5

**8. Federal grants**

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2006, the federal aid received and expended by the Road Commission was \$3,427,984 for contracted projects and \$323,555 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more negotiated projects. As a result, the Road Commission was not required to have a single audit for the year ended September 30, 2006.

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**9. Summary of disclosure of significant contingencies**

Contingent liabilities:

The Road Commission participates in a number of agreements with the State of Michigan, by which the Road Commission receives advances and reimbursements per the agreements. These advances and reimbursements are subject to audit by the State of Michigan. The amounts, if any, which may have to be paid back to the state cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**10. Risk management**

Insurance Programs:

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and participates in the Michigan County Road Commission Self-insurance Pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The pool provides loss protection for automobile liability, errors or omissions liability, and all other bodily injury, property damage, and personal injury liability. The Road Commissions' exposure is limited to \$25,000 per claim.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

**11. Post-employment benefits**

The Road Commission provides post-retirement healthcare benefits to substantially all retirees. The benefits are required to be paid via a contract. The expenditures are recorded on a pay-as-you-go basis. Currently, 212 retirees are eligible to receive the benefits. The expenditures for post-employment healthcare benefits amounted to \$2,475,761.

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2009. Management is currently assessing the impact of this new accounting standard on the Commission's financial statement for future reporting periods.

**Genesee County Road Commission**  
**Notes to Financial Statements**  
**September 30, 2006**

**12. Subsequent events**

On November 1, 2006, the Genesee County Road Commission issued Michigan Transportation fund revenue note Series 2006A in the amount of \$2,460,000 for the purpose of defraying a part of the cost of the construction and improvement of county roads. The interest rate on the bonds is not to exceed six percent and the maturity date is August 1, 2016. Also, on November 1, 2006, the Genesee County Road Commission issued Michigan Transportation fund revenue note Series 2006B in the amount of \$535,000 for the purpose of financing the construction and improvements of county roads. The interest rate on the bonds not to exceed seven percent and the maturity date is August 1, 2013.

**13. Restatement of net assets**

Net assets at September 30, 2005, of the governmental wide statements were changed to comply with the provisions of GASB 34, which requires governments with total annual revenues of \$10 million, but less than \$100 million, to implement retroactive reporting of infrastructure capital assets back to 1980 beginning with reporting periods ending after June 15, 2006. The effect of the change was to increase net assets at September 30, 2005 to \$174,882,760 from \$110,256,250.

## **Required Supplemental Information**



**Genesee County Road Commission**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**For the Year Ended September 30, 2006**

	Original Adopted Budget	Final Amended Budget	Actual	Variance- Favorable (Unfavorable)
<b>Revenues</b>				
Federal revenues	\$ 4,660,486	\$ 3,833,500	\$ 3,781,373	\$ (52,127)
Michigan Transportation Fund	23,278,685	22,454,555	22,308,926	(145,629)
State highway funds	4,101,155	4,338,005	4,276,053	(61,952)
State revenue - urban	7,810,302	3,310,000	3,247,452	(62,548)
County raised revenues	5,481,357	4,583,000	4,486,813	(96,187)
Other revenues	14,429,240	8,249,940	8,386,634	136,694
Miscellaneous	225,000	300,000	301,009	1,009
Total revenues	59,986,225	47,069,000	46,788,260	(280,740)
<b>Expenditures</b>				
Department:				
Engineering	1,313,302	1,103,302	1,064,812	38,490
Maintenance	8,383,304	9,433,304	9,322,971	110,333
Trunkline	3,814,410	4,083,060	4,036,518	46,542
State Specials	286,745	254,945	239,186	15,759
Equipment	5,855,050	5,520,050	5,360,768	159,282
Traffic Engineering & Permits	2,447,645	2,113,145	2,001,263	111,882
Personnel	324,621	339,501	260,262	79,239
Finance	656,054	493,385	462,979	30,406
Commissioners	21,010	21,010	18,783	2,227
Administration	308,995	357,084	303,677	53,407
Information Systems & Planning	369,832	305,947	291,315	14,632
Non-departmental	12,669,734	10,166,649	8,501,448	1,665,201
Road construction	26,340,558	15,009,558	14,484,842	524,716
Total expenditures	62,791,260	49,200,940	46,348,824	2,852,116
Excess (deficiency) of revenues over expenditures	(2,805,035)	(2,131,940)	439,436	2,571,376
Fund balance - beginning of year	51,988,518	51,988,518	51,988,518	-
<b>Fund balance - end of year</b>	<b>\$ 49,183,483</b>	<b>\$ 49,856,578</b>	<b>\$ 52,427,954</b>	<b>\$ 2,571,376</b>

## **Other Supplemental Information**

**Genesee County Road Commission**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**General Operating Fund (by Road Fund)**  
**For the Year Ended September 30, 2006**

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
<b>Revenues</b>				
Permits	\$ -	211,264	86,932	\$ 298,196
Intergovernmental -				
Federal sources	3,482,878	268,661	29,834	3,781,373
State sources	19,831,417	5,724,961	-	25,556,378
Local sources	687,797	3,753,360	153,762	4,594,919
Charges for services	4,274,764	-	16,789	4,291,553
Interest and rents	2,075,709	160,348	38,511	2,274,568
Other	137,727	765,889	65,997	969,613
<b>Total revenues</b>	<b>30,490,292</b>	<b>10,884,483</b>	<b>391,825</b>	<b>41,766,600</b>
<b>Expenditures</b>				
Construction	2,288,869	195,174	-	2,484,043
Heavy maintenance	8,859,204	4,765,494	-	13,624,698
Maintenance	5,857,752	7,829,999	-	13,687,751
State trunkline	4,275,408	-	-	4,275,408
Equipment - net	944,605	847,000	250,343	2,041,948
Administrative	1,696,533	1,276,020	-	2,972,553
Other	-	-	664,600	664,600
Capital outlay - net	422,262	-	-	422,262
Principal retirement	-	945,000	65,878	1,010,878
Interest and fiscal charges	-	138,081	16,759	154,840
<b>Total expenditures</b>	<b>24,344,633</b>	<b>15,996,768</b>	<b>997,580</b>	<b>41,338,981</b>
Excess (deficiency) of revenues over expenditures	6,145,659	(5,112,285)	(605,755)	427,619
<b>Other financing sources (uses)</b>				
County appropriation	-	2,289	-	2,289
Capital leases	-	-	9,528	9,528
Optional transfers	(4,969,921)	4,969,921	-	-
<b>Total other sources (uses)</b>	<b>(4,969,921)</b>	<b>4,972,210</b>	<b>9,528</b>	<b>11,817</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,175,738	(140,075)	(596,227)	439,436
Fund balances - beginning of year	50,910,757	642,682	435,079	51,988,518
<b>Fund balances (deficit) - end of year</b>	<b>\$ 52,086,495</b>	<b>\$ 502,607</b>	<b>\$ (161,148)</b>	<b>\$ 52,427,954</b>

**Genesee County Road Commission**  
**Statements of Revenues and Other Sources**  
**General Operating Fund**  
**For the Year Ended September 30, 2006**

<b>Revenues</b>	
Permits	\$ 298,196
Federal sources -	
Federal aid -	
Urban including STP	3,016,422
C Funds-Federal	77,224
Homeland Security	64,563
High Priority	623,164
Total federal sources	3,781,373
State sources -	
Michigan Transportation Fund	
Engineering	10,000
Urban roads	3,883,708
Allocation	21,662,670
Total state sources	25,556,378
Local sources -	
City and village contributions	401,415
Township contributions	3,588,127
Other contributions	605,377
Total local sources	4,594,919
Charges for services -	
Trunkline maintenance	4,035,579
Trunkline non-maintenance	239,185
Salvage sales	4,192
Other	12,597
Total charges for services	4,291,553
Interest and rents -	
Interest earned	2,254,271
Property rental	20,297
Total interest and rents	2,274,568
Other -	
Special assessments	765,889
Gain on equipment disposal	137,727
Other	65,997
Total other	969,613
Total revenues	41,766,600
<b>Other financing sources</b>	
County appropriation	2,289
Capital leases	9,528
Total other financing sources	11,817
<b>Total revenues and other sources</b>	<b>\$ 41,778,417</b>

**Genesee County Road Commission  
Statements of Expenditures  
General Operating Fund  
For the Year Ended September 30, 2006**

**Expenditures**

Construction -	
Primary roads and structures	\$ 2,288,869
Local roads and structures	195,174
Total construction	<u>2,484,043</u>
Heavy maintenance -	
Primary roads and structures	8,859,204
Local roads and structures	2,933,205
Special assessments	1,832,289
Total heavy maintenance	<u>13,624,698</u>
Maintenance -	
Primary roads and structures, winter and traffic control	5,857,752
Local roads and structures, winter and traffic control	7,829,999
Total maintenance	<u>13,687,751</u>
State trunkline -	
Trunkline	4,036,223
Special	239,185
Total state trunkline	<u>4,275,408</u>
Equipment -	
Direct	3,673,868
Indirect	2,354,101
Operating	1,031,667
Less - equipment rental	(5,017,688)
Total equipment	<u>2,041,948</u>
Administrative -	
Administration	3,426,453
Less - handling charges	(35,622)
- state maintenance overhead	(388,698)
- purchase discounts	(29,580)
Total administrative	<u>2,972,553</u>
Other -	<u>664,600</u>
Capital outlay -	
Land improvements, building and equipment	2,840,134
Less - depreciation/depletion	(2,404,853)
- equipment retirement	(13,019)
Total capital outlay	<u>422,262</u>
Debt service -	
Principal retirement	1,010,878
Interest and fiscal charges	154,840
Total debt service	<u>1,165,718</u>
Total expenditures	<u><u>\$ 41,338,981</u></u>

March 15, 2007

Board of Commissioners  
Genesee County Road Commission

We have recently completed our audit of the basic financial statements of the Genesee County Road Commission (Commission) for the year ended September 30, 2006. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Board of Commissioners and others within the Commission.

#### **AUDITOR'S RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS**

We conducted our audit of the basic financial statements of Genesee County Road Commission in accordance with generally accepted auditing standards. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit

provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

## **AUDITOR'S RESPONSIBILITY FOR TESTING AND REPORTING ON INTERNAL CONTROLS**

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions and observation and review of company documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity's internal control structure.

## **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

## **MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We note no matters related to sensitive accounting estimates.

## **SIGNIFICANT AUDIT ADJUSTMENTS**

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, we proposed (and management recorded) audit adjustments to record deferrals of revenues related to road construction project billings that were not available to fund current year expenditures due to collections beyond the normal billing cycle (90 days).

Auditing standards also require us to inform you about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The unrecorded possible financial statement adjustments and their affect on the financial statements are attached to this letter.

## **DISAGREEMENTS WITH MANAGEMENT**

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the Commission's financial statement or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements or the wording of the auditor's report.

## **CONSULTATION WITH OTHER ACCOUNTANTS**

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

## **INTERNAL CONTROLS**

In planning and performing our audit of the financial statements of Genesee County Road Commission for the year ended September 30, 2006, we considered the Commission's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are:

**General Bank Account Reconciliation-** The bank reconciliation for the General Bank Account is not performed on a timely basis. The bank reconciliation is a key procedure to assure that the general ledger balance of the bank account is properly stated.

**Road Project Final Accounting Procedures-** The process to begin the final accounting for road projects is not consistent. As a result, the final accounting and project closeout (including billings to responsible parties) for many projects was not done timely. We recommend a better system of communication between the Engineering Department who knows when a project is completed and the Finance Department who prepares the final accounting and billing.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

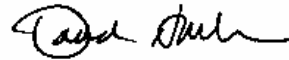


We would be happy to discuss any of these or other questions that you might have at your convenience.

We want to thank the Finance Director, Lynn Luelen, and the Finance Department for the cooperation and courtesy afforded us during the audit.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", written in a cursive style.

Tadd Harburn